

VZCZCXRO4328  
PP RUEHMA RUEHPA  
DE RUEHUJA #1191/01 1721347  
ZNR UUUUU ZZH  
P 201347Z JUN 08  
FM AMEMBASSY ABUJA  
TO RUEHC/SECSTATE WASHDC PRIORITY 3180  
INFO RUEHOS/AMCONSUL LAGOS 9479  
RUEHZK/ECOWAS COLLECTIVE  
RUEATRS/DEPT OF TREASURY WASHDC  
RUCPDO/DEPT OF COMMERCE WASHDC  
RHEBAAA/DEPT OF ENERGY WASHDC

UNCLAS SECTION 01 OF 02 ABUJA 001191

SENSITIVE

SIPDIS

DEPT PASS TO USTR-AGAMA  
TREASURY FOR PETERS AND HALL  
DOC FOR 3317/ITA/OA/KBURRESS, 3130/USFC/OIO/ANESA/DHARRIS  
DOE FOR GPERSON, HAYLOCK

E.O. 12958: N/A

TAGS: [ECON](#) [ENRG](#) [EFIN](#) [PGOV](#) [NI](#)

SUBJECT: NIGERIA: REPORTED DISBURSEMENT OF USD 10 BILLION FROM  
EXCESS CRUDE ACCOUNT

11. (U) Summary. The National Economic Council (NEC), comprising both federal and state authorities, reportedly approved taking approximately \$10 billion from the Excess Crude Account for disbursement to power projects and state and local governments. The operation of the Excess Crude Account (ECA), which some have referred to as a sovereign wealth fund, operating on an oil-price based fiscal rule, has continued to generate attention among various interest groups in the nation. While some Nigerians argue that saving money in this account makes good economic sense, others, particularly from the Niger Delta argue that the region is being shortchanged through the implementation of the ECA. The situation is made more confusing as Section 162 of the Constitution makes it illegal to save any accruals coming into the Federation Account as all the funds must be shared to ensure a zero balance after every month's sharing. However, the three tiers of government have continued to maintain the account, sharing part of its proceeds at intervals. There are ongoing plans to fund infrastructure projects from the account. Some members of the National Assembly, however, insist that the ECA is illegal and must be scrapped. End summary.

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LATEST DISBURSEMENTS FROM ECA  
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12. (U) On June 19, the National Economic Council (NEC) comprising the 36 State Governors, with the Vice President as Chairman, approved the release of USD 10.24 billion from the Excess Crude Account to fund projects in the power sector and sharing by the states and local governments. Specifically, USD 5.37 billion would be invested in the power sector, while USD 4.87 billion would be shared by states and local governments. The balance in the account was reported to be about USD 18 billion as at May 2008 and with this reported planned disbursement may drop to just under USD 7 billion.

13. (SBU) EconOff spoke with Waqar Haider, Senior Energy Specialist at the World Bank (WB) regarding the recent release of ECA funds to the States and LGAs. He reported that he had seen the same media reports and was unclear how the USD 5.37 billion figure for the power sector was calculated and what it would fund. He suspects that because many of the National Independent Power Projects (NIPPs) have been stalled for lack of funding that the allocation will go to them. However, he had no information on which projects may be funded. Haider commented that the new committee setup within the Vice President's office to oversee the USD 5.37 billion implementation added another forum to a crowded list of committees that so far have failed to improve on the crucial issue of implementation." A contact at the Power Ministry told Econcouns June 20 that no concrete plans had been agreed to on the use of the reported disbursements.

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The Excess Crude Account: Background  
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¶4. (U) The ECA was established in 2003 via an agreement between the three tiers of government during the Obasanjo administration to save revenues accruing to the Federation Account above the budget benchmark price for crude oil resulting from the implementation of the Oil Price Based Fiscal Rule. The ECA is made up of proceeds from the Federation's export of crude oil; excess Petroleum Profit Tax (PPT); and excess royalty.

¶5. (U) The aim of maintaining the ECA was to cushion the economy from the negative effects of oil price volatility as well as financing infrastructural projects. Consultations and negotiations were held between the various tiers of government with the results of the discussions finally captured in the Fiscal Responsibility Act which directed the saving of a portion of revenues accruing to the Federation Account from the implementation of the Commodities Price Based Fiscal Rule.

¶6. (U) The ECA has been very useful in augmenting federal budget revenues whenever there are shut-ins in oil production resulting from militant activities in the Niger Delta. The ECA was also the source of funding for Nigeria's Paris Club debt exit, likewise the National Integrated Power Projects (NIPP) initiated by the Obasanjo administration.

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Federation Account  
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¶7. (U) The Federation Account is recognized by Section 16 of the Nigerian 1999 Constitution, which notes that all revenues collected by the Government of the Federation are paid into the Federation Account, except the proceeds from the personal income tax of the personnel of the armed forces of the Federation, the Nigeria Police Force, the Ministry of Foreign Affairs, and the residents of the Federal Capital Territory, Abuja.

¶8. (U) The beneficiaries of the Federation Account are the federal, state, and local government councils of the Federation, and the funds in the account are distributed every month in accordance with the revenue allocation formula approved by the National Assembly. Section 162 of the Constitution stipulates that all accruals to the account must be shared in such a manner that after each month's sharing the account must have a nil balance. Therefore, many legislators and certainly many state governors and local government chairmen see savings such as the ECA as unconstitutional.

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The Quagmire  
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¶9. (SBU) Bright Okogu, Director General of the Budget Office of the Federation, informed EconOff June 19 that the three tiers of government have agreed to maintain the ECA despite its unconstitutionality. "The ECA should continue in principle and it is hoped that it does continue. Notwithstanding the provisions of Section 16 of the constitution, oil prices won't remain high forever, and it is only prudent that we continue to save for the rainy day and have funds to build critical infrastructure needed for development."

¶10. (SBU) Okogu said he is disturbed that some legislators and other members of the public continue to talk about the legality of the ECA proposing that the funds be shared and the ECA scrapped, while in his view people should be thinking of how to ensure more transparency in its operations and be concerned more with the merits of maintaining the ECA. "People should speak out that the saving be continued".  
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Comment

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¶11. (SBU) The Oil Price Based Fiscal Rule of sterilizing excess crude oil proceeds resulted in macroeconomic stability during the last administration which was inherited by the Yar'Adua administration. However, the sharing of its proceeds since the beginning of the current administration have continued to exert pressures on macroeconomic stability with observers expressing concerns that Nigeria could relapse into its old prodigal nature. Notwithstanding the issue of its legality, the current road map is the ECA being maintained but its funds will be shared at intervals among the tiers of government. It will also be the source of funding for infrastructure projects. It is important to ensure transparency in its operations and the state governors should understand that though there are 36 states in the federation, there is only one economy. Therefore if the states continue to agitate for and ensure that ECA accruals are continuously shared, macroeconomic gains of the last four years could be in jeopardy. End comment.

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